



# Washington State Auditor's Office

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## Financial Statements and Federal Single Audit Report

### **Richland School District No. 400**

**Benton County**

**For the period September 1, 2013 through August 31, 2014**

**Published May 28, 2015**

**Report No. 1014211**





## Washington State Auditor

May 28, 2015

Board of Directors  
Richland School District No. 400  
Richland, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on Richland School District No. 400's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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## FEDERAL SUMMARY

**Richland School District No. 400**  
**Benton County**  
**September 1, 2013 through August 31, 2014**

The results of our audit of Richland School District No. 400 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

### Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We identified no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

## Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.553	Child Nutrition Cluster - School Breakfast Program
10.555	Child Nutrition Cluster - National School Lunch Program
10.559	Child Nutrition Cluster - Summer Food Service Program
84.010	Title I, Part A Cluster - Title I Grants to Local Educational Agencies
84.027	Special Education Cluster (IDEA) - Special Education - Grants to States (IDEA, Part B)
84.173	Special Education Cluster (IDEA) - Special Education - Preschool Grants (IDEA Preschool)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District qualified as a low-risk auditee under OMB Circular A-133.

# SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

## Richland School District No. 400

### Benton County

September 1, 2013 through August 31, 2014

**2014-001 Richland School District does not have adequate internal controls over its federal child nutrition verification process, resulting in inaccurate reporting of verification results.**

<b>CFDA Number and Title:</b>	10.553 School Breakfast Program 10.555 National School Lunch Program 10.559 Summer Food Service Program for Children
<b>Federal Grantor Name:</b>	U.S. Department of Agriculture
<b>Federal Award/Contract Number:</b>	NA
<b>Pass-through Entity Name:</b>	Office of Superintendent of Public Instruction
<b>Pass-through Award/Contract Number:</b>	NA
<b>Questioned Cost Amount:</b>	\$0

### *Description of Condition*

The District participates in the School Breakfast and National School Lunch programs. It received \$2,065,435 during fiscal year 2014. This program provides funding for free and reduced-price meals for low-income students. Families must meet income guidelines to be eligible for these programs.

Each year, districts must select a sample of applications and verify that family income information reported to the District is correct. The Office of Superintendent of Public Instruction (OSPI) provides instructions to school districts on how to verify program eligibility.

The District was required to verify ten applications for program eligibility. During our review of the District's verification of free, reduced-price and paid meal applications, we found the District used net income rather than gross income to determine program eligibility.

While the District does have a process in place to perform the verification process, internal controls are not effective to ensure the eligibility status of the

applicants is correct. We consider this control deficiency to be a material weakness.

### ***Cause of Condition***

The District had turnover in the Nutrition Services Assistant Director position during the audit period. The Assistant Director did not understand the requirements for the verification process.

### ***Effect of Condition and Questioned Costs***

A lack of proper internal controls over the verification process increases the risk that free or reduced-priced meals could be provided to children who were not eligible to receive them.

### ***Recommendation***

We recommend the District review the application verification process and ensure gross income is used to verify applicants' eligibility.

### ***District's Response***

*The District understands that Gross income is the basis for calculation. We reviewed the 2012/2013 school year and the current 2014/2015 school years required verification documentation has been found to have been computed on Gross income. On April 23, 2015 an OSPI Child Nutrition Administrative Review reported that OSPI staff audited free and reduced records. One-Hundred Eighty (180) free and reduced applications were audited for benefits under the National School Breakfast and Lunch Programs. Auditors found one (1) math error in the 180 student/family sampling. This error was self-reported and corrected through the District's internal review in advance of the audit. This intensive review of a sampling of 180 applications demonstrates an internal control process with a high degree of accuracy and integrity to self-report.*

*The Cause of Condition and Description of Condition comments statement above "we found the District used net income rather than gross income to determine program eligibility", might be more accurately stated that (five) 5 of the (ten) 10 applications were calculated using Net income and 5 were calculated using Gross income. With that context the District agrees that condition suggests that a material weakness existed.*

*Procedures have been put in place to ensure secondary review of the basis for the calculation as Gross income and verification of all math computations, to ensure compliance. This will occur in all cases.*

## *Auditor's Remarks*

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next audit.

## *Applicable Laws and Regulations*

U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

*Government Auditing Standards*, December 2011 Revision, paragraph 4.23 states:

**4.23** When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, as follows:

**.11** For purposes of adapting GAAS to a compliance audit, the following terms have the meanings attributed as follows:

**Deficiency in internal control over compliance.** A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a

timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in *operation* exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively....

**Material weakness in internal control over compliance.** A deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. In this section, a reasonable possibility exists when the likelihood of the event is either reasonably possible or probable as defined as follows:

**Reasonably possible.** The chance of the future event or events occurring is more than remote but less than likely.

**Remote.** The chance of the future event or events occurring is slight.

**Probable.** The future event or events are likely to occur. ...

**Significant deficiency in internal control over compliance.** A deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

7 CFR §245.6 Application, eligibility and certification of children for free and reduced price meals and free milk, states in part:

(c) *Determination of eligibility*— (1) *Duration of eligibility.* Except as otherwise specified in paragraph (c)(3) of this section, eligibility for free or reduced price meals, as determined through an approved application or by direct certification, must remain in effect for the entire school year and for up to 30 operating days into the subsequent school year. The local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year. The local educational agency must determine eligibility for free or reduced price meals when a

household submits an application or, if feasible, through direct certification, at any time during the school year.

(4) *Calculating income.* The local educational agency must use the income information provided by the household on the application to calculate the household's total current income. When a household submits an application containing complete documentation, as defined in § 245.2, and the household's total current income is at or below the eligibility limits specified in the Income Eligibility Guidelines as defined in § 245.2, the children in that household must be approved for free or reduced price benefits, as applicable.

Title 7 Code of Federal Regulations, Section 245.6a (j) Adverse Action, states in part:

If verification activities fail to confirm eligibility for free or reduced price benefits or should the household fail to cooperate with verification efforts, the school or local educational agency shall reduce or terminate benefits, as applicable, as follows: Ten days advance notification shall be provided to households that are to receive a reduction or termination of benefits, prior to the actual reduction or termination. The first day of the 10 day advance notice period shall be the day the notice is sent. The notice shall advise the household of:

- (1) The change
- (2) The reasons for the change
- (3) Notification of the right to appeal and when the appeal must be filed to ensure continued benefits while awaiting a hearing and decision
- (4) Instructions on how to appeal; and
- (5) The right to reapply at any time during the school year. The reasons for ineligibility shall be properly documented and retained on file at the local educational agency.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Richland School District No. 400  
Benton County  
September 1, 2013 through August 31, 2014**

Board of Directors  
Richland School District No. 400  
Richland, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Richland School District No. 400, Benton County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated May 21, 2015. As discussed in Note 1 to the financial statements, during the year ended August 31, 2014, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency,

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Jan M. Jutte". The signature is written in a cursive style with a long horizontal flourish extending to the right.

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

May 21, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**Richland School District No. 400  
Benton County  
September 1, 2013 through August 31, 2014**

Board of Directors  
Richland School District No. 400  
Richland, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of Richland School District No. 400, Benton County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the accompanying Federal Summary.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on

a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2014-001 to be a material weakness.

### **District's Response to Findings**

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **PURPOSE OF THIS REPORT**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

May 21, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Richland School District No. 400 Benton County September 1, 2013 through August 31, 2014**

Board of Directors  
Richland School District No. 400  
Richland, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Richland School District No. 400, Benton County, Washington, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 20.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Accounting Manual for Public School Districts in the State of Washington* (Accounting Manual) described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Unmodified Opinion on Regulatory Basis of Accounting (Accounting Manual)**

As described in Note 1, the District has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the Accounting Manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The difference in these accounting practices is also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richland School District No. 400, as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

### **Unmodified Opinions on the Governmental Funds Based on U.S. GAAP**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General, ASB, Debt Service, Capital Project and Transportation Vehicle as of August 31, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Matters of Emphasis**

As discussed in Note 1 to the financial statements, in fiscal year 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedules of Long-Term Liabilities are also presented for purposes of additional analysis, as required by the prescribed Accounting Manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

May 21, 2015

## FINANCIAL SECTION

**Richland School District No. 400**  
**Benton County**  
**September 1, 2013 through August 31, 2014**

### FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds – 2014  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2014  
Notes to Financial Statements – 2014

### SUPPLEMENTARY AND OTHER INFORMATION

Schedules of Long-Term Liabilities – 2014  
Schedule of Expenditure of Federal Awards – 2014  
Notes to the Schedule – 2014

Richland School District No. 400  
Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>ASSETS:</b>							
Cash and Cash Equivalents	21,622,909.44	1,273,395.16	4,409,946.37	63,653,466.23	506,417.83	0.00	91,466,135.03
Minus Warrants Outstanding	-3,977,914.98	-62,905.09	0.00	-111,200.18	0.00	0.00	-4,152,020.25
Taxes Receivable	9,378,086.79		4,480,641.53	0.00	0.00	0.00	13,858,728.32
Due From Other Funds	36,387.31	0.00	0.00	0.00	0.00	0.00	36,387.31
Due From Other Governmental Units	392,249.86	0.00	0.00	0.00	0.00	0.00	392,249.86
Accounts Receivable	112,569.73	410.00	0.00	0.00	0.00	0.00	112,979.73
Interfund Loans Receivable	0.00			0.00			0.00
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	153,511.20	0.00					153,511.20
Prepaid Items	2,089,238.19	41,322.10		0.00	0.00	0.00	2,130,560.29
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00
Investments-Deferred Compensation	0.00		0.00	0.00	0.00	0.00	0.00
Self-Insurance Security Deposit	0.00						0.00
<b>TOTAL ASSETS</b>	<b>29,807,037.54</b>	<b>1,252,222.17</b>	<b>8,890,587.90</b>	<b>63,542,266.05</b>	<b>506,417.83</b>	<b>0.00</b>	<b>103,998,531.49</b>
<b>LIABILITIES:</b>							
Accounts Payable	253,757.90	233.00	0.00	0.00	0.00	0.00	253,990.90
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00
Accrued Interest Payable			0.00				0.00
Accrued Salaries	0.00	0.00		0.00			0.00
Anticipation Notes Payable	0.00		0.00	0.00	0.00	0.00	0.00
Payroll Deductions and Taxes Payable	0.00	0.00		0.00			0.00
Due To Other Governmental Units	0.00	0.00		0.00	0.00	0.00	0.00
Deferred Compensation Payable	0.00			0.00			0.00
Estimated Employee Benefits Payable	1,665,645.06						1,665,645.06
Due To Other Funds	0.00	0.00	0.00	36,387.31	0.00	0.00	36,387.31

The accompanying notes are an integral part of this financial statement.

Richland School District No. 400  
Balance Sheet

Governmental Funds

August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>LIABILITIES:</b>							
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Unearned Revenue	0.00	0.00	0.00	0.00	0.00		0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
<b>TOTAL LIABILITIES</b>	<b>1,919,402.96</b>	<b>233.00</b>	<b>0.00</b>	<b>36,387.31</b>	<b>0.00</b>	<b>0.00</b>	<b>1,956,023.27</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Unavailable Revenue	112,569.73	410.00	0.00	0.00	0.00	0.00	112,979.73
Unavailable Revenue - Taxes Receivable	9,378,086.79		4,480,641.53	0.00	0.00		13,858,728.32
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>9,490,656.52</b>	<b>410.00</b>	<b>4,480,641.53</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>13,971,708.05</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	400,000.00	0.00	0.00	0.00	0.00	0.00	400,000.00
Restricted Fund Balance	2,232,381.83	1,251,579.17	4,409,946.37	61,105,176.22	506,417.83	0.00	69,505,501.42
Committed Fund Balance	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assigned Fund Balance	8,362,450.22	0.00	0.00	2,400,702.52	0.00	0.00	10,763,152.74
Unassigned Fund Balance	7,402,146.01	0.00	0.00	0.00	0.00	0.00	7,402,146.01
<b>TOTAL FUND BALANCE</b>	<b>18,396,978.06</b>	<b>1,251,579.17</b>	<b>4,409,946.37</b>	<b>63,505,878.74</b>	<b>506,417.83</b>	<b>0.00</b>	<b>88,070,800.17</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE</b>	<b>29,807,037.54</b>	<b>1,252,222.17</b>	<b>8,890,587.90</b>	<b>63,542,266.05</b>	<b>506,417.83</b>	<b>0.00</b>	<b>103,998,531.49</b>

The accompanying notes are an integral part of this financial statement.

Richland School District No. 400

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>REVENUES:</b>							
Local	25,142,193.64	2,046,201.96	8,820,358.37	247,401.52	380.13		36,256,535.62
State	77,165,547.10		0.00	0.00	427,772.73		77,593,319.83
Federal	6,737,963.61		0.00	1,278,610.03	0.00		8,016,573.64
Federal Stimulus	0.00						0.00
Other	900.00			0.00	0.00	0.00	900.00
<b>TOTAL REVENUES</b>	<b>109,046,604.35</b>	<b>2,046,201.96</b>	<b>8,820,358.37</b>	<b>1,526,011.55</b>	<b>428,152.86</b>	<b>0.00</b>	<b>121,867,329.09</b>
<b>EXPENDITURES:</b>							
<b>CURRENT:</b>							
Regular Instruction	62,279,894.84						62,279,894.84
Federal Stimulus	0.00						0.00
Special Education	10,739,148.73						10,739,148.73
Vocational Education	2,670,105.57						2,670,105.57
Skill Center	0.00						0.00
Compensatory Programs	4,486,576.68						4,486,576.68
Other Instructional Programs	398,312.83						398,312.83
Community Services	336,542.23						336,542.23
Support Services	24,352,803.32						24,352,803.32
Student Activities/Other		1,996,058.21				0.00	1,996,058.21
<b>CAPITAL OUTLAY:</b>							
Sites				1,847,840.01			1,847,840.01
Building				8,887,626.68			8,887,626.68
Equipment				0.00			0.00
Instructional Technology				0.00			0.00
Energy				3,116,385.42			3,116,385.42
Transportation Equipment					338,351.75		338,351.75
Sales and Lease				0.00			0.00
Other	1,184,433.52						1,184,433.52
<b>DEBT SERVICE:</b>							
Principal	0.00		5,190,000.00	0.00	0.00		5,190,000.00
Interest and Other Charges	0.00		3,298,358.02	0.00	0.00		3,298,358.02
Bond/Levy Issuance				0.00	0.00		0.00
<b>TOTAL EXPENDITURES</b>	<b>106,447,817.72</b>	<b>1,996,058.21</b>	<b>8,488,358.02</b>	<b>13,851,852.11</b>	<b>338,351.75</b>	<b>0.00</b>	<b>131,122,437.81</b>

The accompanying notes are an integral part of this financial statement.

Richland School District No. 400

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2014

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
<b>DEBT SERVICE:</b>							
REVENUES OVER (UNDER) EXPENDITURES	2,598,786.63	50,143.75	332,000.35	-12,325,840.56	89,801.11	0.00	-9,255,108.72
<b>OTHER FINANCING SOURCES (USES):</b>							
Bond Sales & Refunding Bond Sales	0.00		0.00	0.00	0.00		0.00
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		0.00	0.00	0.00		0.00
Transfers Out (GL 536)	0.00		0.00	0.00	0.00	0.00	0.00
Other Financing Uses (GL 535)	0.00		0.00	0.00	0.00		0.00
Other	0.00		0.00	0.00	500.00		500.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00</b>	<b>500.00</b>	<b>0.00</b>	<b>500.00</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>2,598,786.63</b>	<b>50,143.75</b>	<b>332,000.35</b>	<b>-12,325,840.56</b>	<b>90,301.11</b>	<b>0.00</b>	<b>-9,254,608.72</b>
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>15,798,191.43</b>	<b>1,201,435.42</b>	<b>4,077,946.02</b>	<b>75,831,719.30</b>	<b>416,116.72</b>	<b>0.00</b>	<b>97,325,408.89</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>18,396,978.06</b>	<b>1,251,579.17</b>	<b>4,409,946.37</b>	<b>63,505,878.74</b>	<b>506,417.83</b>	<b>0.00</b>	<b>88,070,800.17</b>

The accompanying notes are an integral part of this financial statement.

**Richland School District No. 400**  
**Notes to the Financial Statements**  
September 1, 2013 Through August 31, 2014

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Richland School District is a municipal corporation organized pursuant to Title 28A of the Revised Code of Washington (RCW) for the purposes of providing public school services to students in Grades K–12. Oversight responsibility for the District's operations is vested with the independently elected board of directors. Management of the District is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

The District presents governmental fund financial statements and related notes on the modified accrual basis of accounting in accordance with the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor's Office and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A.505.010(1), and RCW 28A.505.020. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- (1) Districtwide statements, as defined in GAAP, are not presented.
- (2) A Schedule of Long-Term Liabilities is presented as supplementary information.
- (3) Supplemental information required by GAAP is not presented.

**Fund Accounting**

Financial transactions of the District are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures (or expenses) as appropriate. All funds are considered major funds. The various funds in the report are grouped into governmental funds as follows:

***Governmental Funds***

General Fund

This fund is used to account for all expendable financial resources, except for those that are required to be accounted for in another fund. In keeping with the principle of having as few funds as are necessary, activities such as food services, maintenance, data processing, printing, and student transportation are included in the General Fund.

## Capital Projects Funds

These funds account for financial resources that are to be used for the construction or acquisition of major capital assets. There are two funds that are considered to be of the capital projects fund type: the Capital Projects Fund and the Transportation Vehicle Fund.

Capital Projects Fund. This fund is used to account for resources set aside for the acquisition and construction of major capital assets such as land and buildings.

Transportation Vehicle Fund. This fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures that relate to pupil transportation equipment.

## Debt Service Fund

This fund is used to account for the accumulation of resources for and the payment of matured general long-term debt principle and interest.

## Special Revenue Fund

In Washington State, the only allowable special revenue fund for school districts is the Associated Student Body (ASB) Fund. This fund is accounted for in the District's financial statements as the financial resources legally belong to the District. As a special revenue fund, amounts within the ASB Fund may only be used for those purposes that relate to the operation of the Associated Student Body of the District.

## **Measurement focus, basis of accounting and fund financial statement presentation.**

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Revenues are recognized as soon as they are measurable and available. Revenues are considered "measurable" if the amount of the transaction can be readily determined. Revenues are considered "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after year-end. Property taxes receivable are measurable but not available and are, therefore, not accrued. Categorical program claims and interdistrict billings are measurable and available and are, therefore, accrued.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term

debt which are recorded when due. Purchases of capital assets are expensed during the year of acquisition. For federal grants, the recognition of expenditures is dependent on the obligation date. (Obligation means a purchase order has been issued, contracts have been awarded, or goods and/or services have been received.)

## **Budget**

Chapter 28A.505 RCW and Chapter 392-123 Washington Administrative Code (WAC) mandate school district budget policies and procedures. The board adopts annual appropriated budgets for all governmental funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Appropriations lapse at the end of the fiscal period.

Budgets are adopted on the same modified accrual basis as used for financial reporting. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the District enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

### **The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.**

The District receives state funding for specific categorical education-related programs. Amounts that are received for these programs that are not used in the current fiscal year may be carried forward into the subsequent fiscal year, where they may be used only for the same purpose as they were originally received. When the District has such carryover, those funds are expended before any amounts received in the current year are expended.

Additionally, the District has other restrictions placed on its financial resources. When expenditures are recorded for purposes for which a restriction or commitment of fund balance is available, those funds that are restricted or committed to that purpose are considered first before any unrestricted or unassigned amounts are expended.

### **The government's fund balance classifications policies and procedures.**

The District classifies ending fund balance for its governmental funds into five categories.

Nonspendable Fund Balance. The amounts reported as Nonspendable are resources of the District that are not in spendable format. They are either non-liquid resources such as inventory or prepaid items, or the resources are legally or contractually required to be maintained intact.

Restricted Fund Balance. Amounts that are reported as Restricted are those resources of the District that have had a legal restriction placed on their use either from statute, WAC, or other legal requirements that are beyond the control of the board of directors.

Restricted fund balance includes anticipated recovery of revenues that have been received but are restricted as to their usage.

Committed Fund Balance. Amounts that are reported as Committed are those resources of the District that have had a limitation placed upon their usage by formal action of the District's board of directors. Commitments are made either through a formal adopted board resolution or are related to a school board policy. Commitments may only be changed when the resources are used for the intended purpose or the limitation is removed by a subsequent formal action of the board of directors.

Assigned Fund Balance. In the General Fund, amounts that are reported as Assigned are those resources that the District has set aside for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies. Assignments reduce the amount reported as Unassigned Fund Balance, but may not reduce that balance below zero.

In other governmental funds, Assigned fund balance represents a positive ending spendable fund balance once all restrictions and commitments are considered. These resources are only available for expenditure in that fund and may not be used in any other fund without formal action by the District's board of directors and as allowed by statute.

The Executive Director of Finance or designee is the only person who has the authority to create Assignments of fund balance.

Unassigned Fund Balance. In the General Fund, amounts that are reported as Unassigned are those net spendable resources of the District that are not otherwise Restricted, Committed, or Assigned, and may be used for any purpose within the General Fund.

In other governmental funds, Unassigned fund balance represents a deficit ending spendable fund balance once all restrictions and commitments are considered.

A negative Unassigned fund balance means that the legal restrictions and formal commitments of the District exceed its currently available resources.

## **Cash and Cash Equivalents**

All of the District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

## **Receivables and Payables**

There are no receivable not expected to be collected within one year (notes, liens, etc.).

## Inventory

Inventory is valued at cost using weighted method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. A portion of fund balance, representing inventory, is considered Nonspendable. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

## Accounting and Reporting Changes for 2013-2014

Effective for the 2013-2014 school year, the district implemented provisions of GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. As a result, deferred property taxes were reclassified from liabilities to deferred inflows of resources.

## **NOTE 2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS**

The Benton County Treasurer is the *ex officio* treasurer for the District and holds all accounts of the District. The District directs the County Treasurer to invest those financial resources of the District that the District has determined are not needed to meet the current financial obligations of the District.

All of the District's investments (except for investments of deferred compensation plans) during the year and at year-end were insured or registered and held by the District or its agent in the District's name.

The District's investments as of August 31, 2014, are as follows:

	Number of Securities	Carrying Amount	Market Value
Certificates of Deposit or Other Time Deposits			
Repurchase Agreements			
Bankers' Acceptance			
Obligations of the U.S. Government or Its Subsidiary Corporations			
Investments Held by Broker-Dealers Under Reverse Repurchase Agreements: U.S. Government Securities U.S. Instrumentality Securities			
State Treasurer's Investment Pool			
County Treasurer's Investment Pool		87,175,709	87,175,709
Total Investments		87,175,709	87,175,709

### **NOTE 3: SIGNIFICANT CONTINGENT LIABILITIES**

#### **Litigation**

The District currently has five open claims. Three are general liability bodily injury claims and one automobile liability bodily injury for less than \$50,000. The fifth claim is for wrongful acts for \$1.5 million dollars not including attorney's fees or punitive damages.

#### **Arbitrage Rebate**

The Tax Reform Act of 1986 requires the District to rebate the earnings on the investment of bond and revenue anticipation note proceeds, in excess of their yield, to the federal government. This requirement is effective for the District's 2013 bond issue after September 1, 1986, currently totaling \$60,770,000 million as of August 31. Of the rebate, 90 percent is due and payable five years from the date bonds were issued and at five-year intervals thereafter. The remaining 10 percent is payable 60 days after they are retired. Because positive arbitrage can be offset against negative arbitrage, the rebatable amount fluctuates each year and may or may not be owed at the payment intervals. Because of the uncertainty of having to make this payment, the District is contingently liable for arbitrage rebate currently computed to total \$0.00 as of August 31, 2014.

### **NOTE 4: SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS**

There were no events after the balance sheet date that would have a material impact on the next or future fiscal years.

### **NOTE 5: ANNUAL PENSION COST AND NET PENSION OBLIGATIONS**

#### **A. General Information**

Substantially all District full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS): Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS) and School Employees' Retirement system (SERS). Participation in the programs was as follows:

Membership by retirement system program as of June 30, 2013:

Program	Active Members	Inactive Vested Members	Retired Members
TRS	65,935	9,823	44,220
PERS	150,706	31,047	85,328
SERS	52,295	11,588	9,079

*Data is as of last actuarial valuation date of June 30, 2013.*

Certificated public employees are members of TRS. Noncertificated public employees are members of PERS (if Plan 1) or SERS.

Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. Plan 1 members are eligible to retire with full benefits after five years of credited service and attainment of age 60, after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

Plan 2 under the TRS or SERS programs are defined benefit pension plans whose members joined on or after October 1, 1977, but before June 30, 1996, or August 31, 2000, for TRS or SERS, respectively. Members of TRS and SERS are eligible to retire with full benefits after five years of credited service and attainment of age 65, or after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65, or 30 years of credited service and receive either a reduced benefit or stricter return-to-work rules.

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS, respectively. Members are eligible to retire with full benefits at age 65, or they may retire at age 55 with at least ten service years with a reduced benefit amount, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter return-to-work rules.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the highest average salary during any two consecutive years. For Plan 2 and Plan 3 TRS and SERS members, it is the highest average salary during any five consecutive years.

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by 2 percent per year of service, capped at 60 percent, with a cost-of-living adjustment. For Plan 2 TRS and SERS members, it is the AFC multiplied by 2 percent per year of service with provision for a cost-of-living adjustment. For the defined benefit portion of Plan 3 TRS and SERS members, it is the AFC multiplied by 1 percent per year of service with a cost-of-living adjustment.

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The employer rate is the same for all plans in a system. The methods used to determine the contribution requirements are established under Chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS, and SERS, respectively.

The District's contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.



## **NOTE 6: ANNUAL OTHER POST-EMPLOYMENT BENEFIT COST AND NET OPEB OBLIGATIONS**

The State, through the Health Care Authority (HCA), administers an agent multi-employer Other Post-Employment Benefit plan. The Public Employees Benefits Board (PEBB), created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Programs include (medical, dental, life insurance and long-term disability insurance)<sup>(5)</sup>.

Employers participating in the plan include the State of Washington (which includes general government agencies and higher education institutions), 57 of the state's K–12 school districts and educational service districts (ESDs), and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 247 K–12 school districts and ESDs. The District's retirees are eligible to participate in the PEBB plan under this arrangement.

According to state law, the Washington State Treasurer collects a fee from all school district entities which have employees that are not current active members of the state Health Care Authority but participate in the state retirement system. The purpose of this fee is to cover the impact of the subsidized rate of health care benefits for school retirees that elect to purchase their health care benefits through the state Health Care Authority. For the fiscal year 2013-14, the District was required to pay the HCA \$64.40 per month per full-time equivalent employee to support the program, for a total payment of \$803,138.40. This assessment to the District is set forth in the State's operating budget and is subject to change on an annual basis. This amount is not actuarially determined and is not placed in a trust to pay the obligations for post-employment health care benefits.

The District has no control over the benefits offered to retirees, the rates charged to retirees, nor the fee paid to the Health Care Authority. The District does not determine its Annual Required Contribution nor the Net Other Post-Employment Benefit obligation associated with this plan. Accordingly, these amounts are not shown on the financial statements. This is a departure from GAAP.

**NOTE 7: CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS, INCLUDING ENCUMBRANCES**

Construction in progress is composed of:

<b>Project</b>	<b>Project Authorization Amount</b>	<b>Expended as of 8/31/14</b>	<b>Additional Local Funds Committed</b>	<b>Additional State Funds Committed</b>
CJMS HVAC	5,683,000	3,062,641	0	0
Fran Rish Stadium	2,120,000	71,467	0	0
New Elementary No. 10	21,950,685	1,482,245	0	0
L&C Elementary	20,801,999	4,434,321	0	0
Jefferson Elementary	4,851,294	352	0	0
Marcus Elementary	23,261,888	853,571	0	0
Sacajawea Elementary	19,970,908	1,928,195	0	0
Middle School No. 04	32,950,000	57,169	0	0
Homelink	5,864,160	33,492	0	0
Total	137,453,934	11,923,453	0	0

**Encumbrances**

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year. The following encumbrance amounts were re-encumbered by fund on September 1, 2014:

<b>Fund</b>	<b>Amount</b>
General	244,927.25
ASB Fund	0.00
Capital Projects Fund	0.00
Transportation Vehicle Fund	0.00

**NOTE 8: REQUIRED DISCLOSURES ABOUT CAPITAL ASSETS**

The District's capital assets are insured in the amount of \$396,727,177 for fiscal year 2014. In the opinion of the District's insurance consultant, the amount is sufficient to adequately fund replacement of the District's assets.

**Lease of Capital Assets**

On January 23, 2002, the Board approved an initial twelve-month lease agreement with U.S. Cellular for 0.5 acres of land on the Stevens Center property, with an

option to renew up to five additional terms of five years each. This lease is to allow U.S. Cellular to construct, operate, modify as necessary, and maintain a communications antenna tower. The base rent shall be \$638.03 per month, which is deposited into the Capital Projects Fund.

Year	Minimum Lease Payment
2014	\$7,656.36
2015	\$7,656.36
2016	\$7,656.36
2017	\$7,656.36
2018	\$7,656.36
<b>TOTAL</b>	<b>\$38,281.80</b>

On every fifth year's anniversary the commencement date of the term of this Lease, and throughout the duration hereof as renewed and extended, the Base Rent shall be adjusted in proportion to the cumulative change in the latest published Consumer Price Index compared to the same index as historically recorded for the month and year in which the term of this Lease commenced.

On February 23, 2011, the board approved the lease agreement of the Educational Broadband Service with Clearwire Spectrum Holdings, with an option to renew on an annual basis for the first five (5) years; and at five (5) year intervals thereafter for maximum agreement duration of thirty (30) years. The district will receive a monthly fee of \$2,000 for the first year and on each annual anniversary date the monthly fee will be increase by the percentage increase of the CPI (the Consumer Price Index for All Urban Consumers). In addition to the monthly fee the agreement also provides the district with a monthly services credit of \$1,200 that will increase according to the CPI index on each annual anniversary date.

**NOTE 9: REQUIRED DISCLOSURES ABOUT LONG-TERM LIABILITIES**

**Long-Term Debt**

Bonds payable at August 31, 2014, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
2013 GO Bonds	60,770,000	160,000	2027	1.0-5.0	60,770,000
2012 GO Bonds Ref	14,050,000	100,000	2022	3.0-5.0	13,865,000
2010 GO Bonds Ref	35,250,000	3,190,000	2020	1.75-5.0	31,070,000
2006 GO Bonds Ref	6,525,000	640,000	2017	4.00-5.00	3,470,000
2005A GO Bonds Ref	17,800,000	380,000	2015	3.75-5.00	805,000
2004 GO Bonds Ref	9,240,000	1,050,000	2014	3.63-3.75	3,850,000
<b>Total General Obligation Bonds</b>	<b>\$143,635,000</b>				<b>\$113,830,000</b>

The following is a summary of general obligation long-term debt transactions of the District for the fiscal year(s) ended August 31, 2014:

Long-Term Debt Payable at 9/1/2013	119,020,000
New Issues	0
Debt Retired	5,190,000
Long-Term Debt Payable at 8/31/2014	113,830,000

The following is a schedule of annual requirements to amortize debt at August 31, 2014:

Years Ending August 31	Principal	Interest	Total
2014	5,325,000	4,589,705	9,914,705
2015	5,650,000	4,447,842	10,097,842
2016	5,685,000	4,273,459	9,958,459
2017	5,830,000	4,085,503	9,915,503
2018	6,450,000	3,858,544	10,308,544
2019-2023	34,330,000	15,050,428	49,380,428
2024-2028	50,560,000	5,434,275	55,994,275
<b>Total</b>	<b>113,830,000</b>	<b>41,739,756</b>	<b>155,569,756</b>

At August 31, 2014, the District had \$4,409,946.37 available in the Debt Service Fund to service the general obligation bonds.

#### **Bonds Authorized But Unissued**

Remaining Authorized Bond Amount	Planned Bond Sale Date
28,000,000	September 2014

### **NOTE 10: ENTITY RISK MANAGEMENT ACTIVITIES**

#### **Unemployment Compensation**

The district made unemployment compensation payments totaling \$19,012.96 for fiscal year end 2014. The district has no monies set aside in cash reserves or escrow to ensure payment of these claims for future years.

#### **General Liability/Property/Automobile/Fidelity Bond – Insurance**

The Richland School District is a member of the Schools Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34

RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1995 when seven mid-sized school districts in the state of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW program has 37 member districts.

The program allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a claims-made basis. All other coverages are on an occurrence basis. The program provides the following forms of group purchased insurance coverage for its members: property, earthquake, liability, automobile liability, equipment breakdown, crime, employee benefits, and wrongful act liability.

The program acquires liability insurance through their Administrator, Canfield that is subject to a per-occurrence deductible of \$100,000. Members are responsible for \$2,500 deductible for each claim, while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$102,500 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy with an attachment point of \$3,400,000, which it fully funds in its annual budget.

Property insurance is subject to a per-occurrence retention of \$250,000. Members are responsible for a \$10,000 deductible amount of each claim. The program is responsible for the remaining \$250,000 self-insured retention.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim. Members contract to remain in the program for one year and must give notice before December 31 before terminating participation the following September 1. Renewal of the Interlocal Agreement occurs automatically each year. Even after termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The program is fully funded by its member participants. Claims are filed by members with Canfield, which has been contracted to perform program administration, claims adjustment and administration and loss prevention for the pool. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2014 were \$2,956,785.70.

A Board of Directors of eight members is selected by the membership from the east and west side of the state and is responsible for conducting the business affairs of the program. The Board of Directors has contracted with Canfield to perform day-to-day administration of the pool. This pool has no employees.

## **NOTE 11: PROPERTY TAXES**

Property tax revenues are collected as the result of special levies passed by the voters in the District. Taxes are levied on January 1. The taxpayer has the obligation of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the property taxes due on October 31 are recorded as deferred revenue.

## **NOTE 12: JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS**

The district participates in the Tri-Tech Skills Center in cooperation with five neighboring districts for the purpose of training students of all six districts in certain vocational skills. All revenues and expenditures are reported by the Kennewick School District.

The district is a member of the King County Director's Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The board authorized joining the association by a unanimous vote on November 11, 1974, and has remained in the joint venture ever since. The district's current equity of \$34,265.49 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against paid administrative fees. The district may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

### **Joint Partner Agreement – Delta High (STEM):**

In 2009 the district entered into an inter-cooperative agreement with Kennewick and Pasco School districts to establish Delta High School. The school opened for the 2009/2010 school year offering students a Science, Technology, Engineering, and Mathematics (STEM) focused curriculum. The school is scheduled to enroll 100 students each year for a target capacity of 400 students in school year 2013/2014. Each of the three participating districts is allotted a share of student seats to fill. The school operates out of facilities owned by Columbia Basin College located within the Richland School District. Educational Service District 123 serves as the fiscal agent for the program.

**NOTE 13: FUND BALANCE CLASSIFICATION DETAILS**

The District’s financial statements include the following amounts presented in the aggregate.

	General Fund	ASB Fund	Capital Projects Fund	Debt Service Fund	Transportation Vehicle Fund
Nonspendable Fund Balance					
Inventory and Prepaid Items	400,000				
Restricted Fund Balance					
Carryover of Restricted Revenues	232,382				
Debt Service				4,409,946	
Other Items	2,000,000	1,251,579			506,418
Committed Fund Balance					
Other Commitments					
Assigned Fund Balance					
Other Purposes	8,362,450				
Fund Purposes			2,400,703		
Unassigned Fund Balance	7,402,146				

In addition, the Capital Projects Fund has the following amounts in Restricted and Committed Fund Balance, based on the source of the revenues:

Restricted from Bond Proceeds	\$57,847,430
Restricted from State Proceeds	\$3,257,746

**NOTE 14: POST-EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—BOTH IN SEPARATELY ISSUED PLAN FINANCIAL STATEMENTS AND EMPLOYER STATEMENTS**

**457 Plan – Deferred Compensation Plan**

District Employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the state retirement plan.

**403(b) Plan – Tax Sheltered Annuity (TSA)**

The District offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under elective deferrals (employee contribution).

The district complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by Carruth Compliance Consulting. The plan assets are assets of the District employees, not the school district, and are therefore not reflected on these financial statements.

## **NOTE 15: TERMINATION BENEFITS**

### **Compensated Absences**

Employees earn sick leave at a rate of 12 days per year up to a maximum of one contract year.

Under the provisions of RCW 28A.400.210, sick leave accumulated by district employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. For buyout purposes employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the vesting method.

Vacation pay, including benefits that are expected to be liquidated with expendable available financial resources is reported as expenditures and a fund liability of the governmental fund that will pay it.

## **NOTE 16: OTHER DISCLOSURES**

### **SELF-INSURANCE – SECURITY DEPOSIT**

On October 1, 2004, the Richland School District initiated a Dental Self-Insured plan through the Fortis/Assurant Insurance Company. The money for this account has been collected through employee premiums. The costs of the dental care provided were paid from the premiums collected. A reserve fund of \$250,000 was set up.

In August of 2005, the Richland School District set up a reserve fund of \$300,000 as part of the requirements to become Self-Insured for Workers' Compensation. At the completion of fiscal year 2014 the current reserve balance is \$2,000,000.

## **Payment-In-Lieu-of-Taxes**

The Department of Energy and local taxing districts within Benton and Grant Counties negotiated for payment-in-lieu-of-taxes (PILT) for property taxes un-assessed against federal property within the taxing districts. The Department of Energy – Hanford Project is located within the Richland School District. As of August 31, 2014, the Richland School District has collected \$2,145,377 payment-in-lieu-of-tax revenue. The continuation of payment from the Department of Energy is uncertain in the future years. The Board authorized expenditures during the 2013-2014 fiscal year in the amount of \$2,141,450. The August 31, 2014 balance of PILT funds totals \$3,814,865. The ending fund balance of the Richland School District is expected to decrease as the PILT funds are expended.

Richland School District No. 400  
 Schedule of Long-Term Liabilities: GENERAL FUND

For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
<b>Non-Voted Debt and Liabilities</b>					
Capital Leases	0.00	0.00	0.00	0.00	0.00
Contracts Payable	0.00	0.00	0.00	0.00	0.00
Non-Cancellable Operating Leases	0.00	0.00	0.00	0.00	0.00
Claims & Judgements	0.00	0.00	0.00	0.00	0.00
Compensated Absences	2,464,885.02	83,192.09	0.00	2,548,077.11	177,000.00
Long-Term Notes	0.00	0.00	0.00	0.00	0.00
Anticipation Notes Payable	0.00	0.00	0.00	0.00	0.00
Lines of Credit	0.00	0.00	0.00	0.00	0.00
Other Non-Voted Debt	0.00	0.00	0.00	0.00	0.00
<b>Other Liabilities</b>					
Non-Voted Notes Not Recorded as Debt	0.00	0.00	0.00	0.00	0.00
<b>Total Long-Term Liabilities</b>	<b>2,464,885.02</b>	<b>83,192.09</b>	<b>0.00</b>	<b>2,548,077.11</b>	<b>177,000.00</b>

Richland School District No. 400  
 Schedule of Long-Term Liabilities: DEBT SERVICE FUND  
 For the Year Ended August 31, 2014

Description	Beginning Outstanding Debt September 1, 2013	Amount Issued / Increased	Amount Redeemed / Decreased	Ending Outstanding Debt August 31, 2014	Amount Due Within One Year
<b>Voted Debt</b>					
Voted Bonds	119,020,000.00	0.00	5,190,000.00	113,830,000.00	5,485,000.00
LOCAL Program Proceeds Issued in Lieu of Bonds	0.00	0.00	0.00	0.00	0.00
<b>Non-Voted Debt</b>					
Non-Voted Bonds	0.00	0.00	0.00	0.00	0.00
LOCAL Program Proceeds	0.00	0.00	0.00	0.00	0.00
<b>Total Long-Term Liabilities</b>	<b>119,020,000.00</b>	<b>0.00</b>	<b>5,190,000.00</b>	<b>113,830,000.00</b>	<b>5,485,000.00</b>

The accompanying notes are an integral part of this financial statement.

**RICHLAND SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
FOR THE YEAR ENDING AUGUST 31, 2014**

(The Schedule of Federal Awards is prepared on the Modified Accrual basis of accounting)

Federal Agency Name	Pass-through Agency	Federal Program Title	Federal CFDA Number	Other Identification Number	EXPENDITURES			Foot-Note Ref.
					From Direct Awards	From Pass-Through Awards	Total	
USDA	WA OSPI	School Breakfast	10.553			325,522	325,522	1
		National School Lunch/Supper-Cash Assistance	10.555			1,531,780	1,531,780	1
		Food Service Summer	10.559			36,688	36,688	1
		National School Lunch-Non Cash Assistance	10.555			171,445	171,445	1,3
		Food Commodities						
		<b>Subtotal US Department of Agriculture</b>			<b>-</b>	<b>2,065,435</b>	<b>2,065,435</b>	
US Dept of	WA OSPI	HC Supplemental (IDEA Part B)	84.027A	304524		1,936,056	1,936,056	1,5
		Pre School (IDEA Preschool)	84.173A	364523		62,387	62,387	1,5
		Safety Net	84.027A	337469		22,745	22,745	1,5
		Carl Perkins III (Vocational Ed)	84.048	172764		52,197	52,197	1,5
		Title I, Part A	84.010A	201119		1,128,631	1,128,631	1,4,5
		Title II Part A TPQ-Improving Teacher Quality	84.367A	523003		279,960	279,960	1,5
		WA Fellows Grant	84.367	540225		-	-	1,5
		Title I, Part D Neglected/Delinquent	84.013A	223011		14,764	14,764	1,5
		Title III English Language Acquisition (Part A)	84.365A	401616		35,413	35,413	1,5
		Impact Aid (Title VIII)	84.041			34,434	34,434	1
		<b>Subtotal US Department of Education</b>			<b>34,434</b>	<b>3,532,152</b>	<b>3,566,587</b>	
US Dept of Health and Human Services	WA DSHS	Medicaid Admin Match (Medicaid Title XIX)	93.778			139,707	139,707	1,2
		<b>Subtotal US Dept of Health &amp; Human Services</b>			<b>-</b>	<b>139,707</b>	<b>139,707</b>	
<b>Total Federal Awards Expended</b>					<b>34,434</b>	<b>5,737,295</b>	<b>5,771,729</b>	

**RICHLAND SCHOOL DISTRICT #400**  
**Notes to the Schedule of Expenditure of Federal Awards**

**NOTE 1 - BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Richland School District's financial statements. The Richland School District uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

**NOTE 2 - PROGRAM COSTS/MATCHING CONTRIBUTIONS**

The amounts shown as current year expenses represent only the federal grant portion of the program costs. Entire program costs, including the Richland School District's local matching share, may be more than shown.

**NOTE 3 - NON CASH AWARDS - FOOD COMMODITIES**

The amount of commodities reported on the schedule is the value of commodities distributed by the Richland School District during the current year and priced as prescribed by USDA.

**NOTE 4 - SCHOOLWIDE PROGRAMS**

The Richland School District operates a "schoolwide program" in six elementary buildings. Using federal funding, schoolwide programs are designed to upgrade an entire educational program within a school for all students, rather than limit services to certain targeted students. The following federal program amount was expended by the Richland School District in its school wide program: Title I (84.010A) - \$713,842.99.

**NOTE 5 - FEDERAL INDIRECT RATE**

The Richland School District used the federal restricted rate of 4.97 %.

**CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED  
UNDER OMB CIRCULAR A-133**

**Richland School District No. 400  
Benton County  
September 1, 2013 through August 31, 2014**

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the Richland School District No. 400.

<b>Finding ref number:</b> 2014-001	<b>Finding caption:</b> Richland School District does not have adequate internal controls over its federal child nutrition verification process, resulting in inaccurate reporting of verification results.
<b>Name, address, and telephone of auditee contact person:</b> Rich Puryear Richland School District No. 400 615 Snow Avenue Richland, WA 99352	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>Procedures have been put in place by the Food Services Department to ensure secondary review of the basis for the calculation as Gross income and verification of all math computations, to ensure compliance. This will occur in all cases.</i>	
<b>Anticipated date to complete the corrective action:</b> May 31, 2015	

## ABOUT THE STATE AUDITOR'S OFFICE

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